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13 JUN 1985

DDI- 03064-85

MEMORANDUM FOR: Director of Central Intelligence

THROUGH: Deputy Director of Central Intelligence  
Deputy Director for Intelligence

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FROM:   
Director of Global Issues

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SUBJECT: Conference on Structural Change 

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1. On 4 June 1985, we successfully concluded a two-day conference on Economic and Security Implications of Structural Change. The conference was attended by 25 distinguished experts from universities, research institutes, and corporations; 25 representatives of other government agencies; and 50 senior-level Agency personnel (Attachment 1).

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2. The conference addressed issues associated with structural change that pose serious challenges to the economic, foreign policy, and national security interests of the United States, today and in the near-term future. The range of topics was exceptionally broad while at the same time focusing on particular aspects of intelligence concern to the Agency. (See conference program, Attachment 2).

3. Discussion centered on the fact that the present and potential instabilities generated by structural change have only begun to be analyzed. As you anticipated in your welcoming remarks to the conference, no consensus on these issues emerged; in fact, sharp differences of view pointed to a range of issues that need to be analyzed in depth from the standpoint of US national security. Several topics emerged from the discussion as being of particular concern in warranting further intelligence analysis and appraisal:

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-- The Meaning of Structural Change. The essence of structural change is medium- to longer-term shifts in the relative importance of economic power centers, usually sparked by technological advance. The concept offers a useful perspective for the Agency's analysts because it emphasizes events and trends that might be overlooked (or minimized) in the conventional, short-term policy-oriented focus of current intelligence analysis. Structural change is basically a disruptive phenomenon. It almost always produces political strains, which can have an important effect on strategic relationships and capabilities. However, the exact process by which this occurs and the likely consequences are still imperfectly understood.

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-- Structural Change and the International Economy. Structural change involves fundamental realignments in the internal economic and political systems of foreign countries, as well as triggering shifts in their political, economic and strategic relationships internationally. Because these changes are occurring at different rates in Europe, North America and East Asia, problems of industrial adjustment and restructuring in those regions are emerging. Current economic imbalances (reflected in part in a strong dollar and relatively high US interest rates) can be expected to produce a major crisis in the world economy within the near future unless corrective steps are taken soon by US economic policymakers. A new international economic regime is now in the formative stages -- one that is not based on the predominance of US economic power, as was the case from World War II to the early 1970s -- and the nature and dynamics of this new regime need to be identified and taken into account by the Agency's analysts.

-- Structural Adjustment and Trade Problems. With structural change in the post-war era has come a steady deterioration in the commitment to trade liberalization in Western Europe, where the social and political costs of adjusting to accelerating changes in comparative advantage -- especially the cost of massive and chronic unemployment -- may have begun to outweigh the economic benefits. Japan and the NICs (newly industrialized countries) are seen in many quarters as setting too fast a competitive pace, well beyond the rate of social and economic adjustment that the "established" economies appear willing to make. Powerful tendencies are emerging toward partitioning the world economy into preferential spheres of influence, which cannot help but distance West Europeans from their American and Japanese allies.

-- Structural Change and the Western Alliance. The central problem posed by structural change in the United States and Western Europe is that of declining power relative to commitments, both domestic and international. The inflexibility of European political and economic structures in adapting to a rapidly-changing competitive environment raises serious questions about the ability of our NATO allies to sustain their responsibilities to collective defense in a technological as well as financial sense. A closed and autarkic Western Europe would have profound consequences for the future of the world economy and alliance relations. On the other hand, a different set of structural changes are affecting the US-Japanese strategic relationship in ways that need to be examined in greater detail.

-- Structural Change and East-West Relations. Because structural change is occurring simultaneously in Eastern and Western Europe -- at different rates, and in somewhat different directions -- future patterns of East-West trade are likely to be affected. This may also affect the capacity of the United States and its allies to control such trade for strategic purposes. Despite the enormous technical and economic changes of the past several decades, the Soviet economy is still organized as a system

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focused on heavy industry, in which prices play only a secondary role. This may mean an ongoing relative decline for the Soviets as the West launches the "information based economy." It may also entail increased unpredictability and/or belligerence on the part of the Soviets, as well as greater efforts to steal (rather than purchase or internally reproduce) Western technology. There exists within Europe the prospect of divided allegiances between East and West as structural change unfolds, leading to further strains in the Western alliance, but conditions affecting the outcome need to be identified.

-- Structural Change and the Third World. The global economic crisis that began in the 1970s has generated an adjustment process throughout the Third World that accentuated differences among developing countries. Third World nations have emerged as winners or losers, depending on their location in the global system and the capacity of their internal structure to adjust to the new environment. The vulnerable states of Sub-Saharan Africa, the Caribbean Basin, and Andean regions have been losing ground. A growing number of developing countries are transferring more capital to the North than they are receiving in new loans; this financial imbalance can only be carried by strong export drives. Although Third World political systems have proved surprisingly resilient, prolonged economic decline is a recipe for unrest. We need to understand in what forms massive economic shifts may occur, prompted by structural change, that could generate political upheavals.

-- Structural Change and National Security. The United States is becoming increasingly dependent on foreign sources for inputs into military R&D and production, raising concerns that the United States may be vulnerable if supplies of these items are reduced during times of mobilization. Most of these inputs today are not critical to the performance of military systems and could currently be produced in the United States in an emergency. A growing number of specialty components, advanced materials, and manufacturing equipment, however, are also foreign sourced and could become serious short-term bottlenecks. Moreover, we are concerned that the United States may become dependent over the long term on foreign sources of certain advanced technologies important to the development and production of future military systems. The longer the United States stays out of these markets, the more difficult it will be to get back into production in these critical areas.

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4. Aside from the value of the substantive discussion, this conference provided Agency components potentially valuable contacts with outside experts who are working on aspects of structural change. The DDI Research Program for FY1986 -- in particular, projects within a cross-cutting theme on economic restructuring -- should benefit directly and substantially from the working relationships established at the conference.

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5. In order to disseminate the results of the conference as widely as possible among analysts within the Agency, we had the proceedings videotaped and transcribed in their entirety. We hope to have an edited version of the video available for screening in the near future.

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Attachments:  
As stated

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Attachment 1

LIST OF CONFERENCE PARTICIPANTS

1. Outside Speakers and Panel Members

Dr. Leo Cherne  
Vice Chairman  
President's Foreign Intelligence Advisory Board

Mr. Peter G. Peterson  
Chairman, Peterson, Jacobs and Company

Dr. C. Fred Bergsten  
Director, Institute for International Economics

Professor Charles P. Kindleberger  
Massachusetts Institute of Technology

Professor Mordechai E. Kreinin  
Michigan State University

Mr. James Fallows  
Washington editor, The Atlantic Monthly

Dr. Roy E. Moor  
Chief Economist, The First National Bank of Chicago

Professor Robert E. Baldwin  
University of Wisconsin

Professor Paul R. Krugman  
Massachusetts Institute of Technology

Mr. Howard Rosen  
Institute for International Economics

Dr. Richard Feinberg  
Vice President, Overseas Development Council

Professor Kent Calder  
Princeton University

Dr. Peter Morici  
National Planning Association

Dr. James R. Schlesinger  
Georgetown Center for Strategic and International Studies

Professor Robert Gilpin  
Princeton University

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Professor Robert Keohane  
Brandeis University

Dr. Michael Aho  
Council on Foreign Relations

Mr. Robert J. Samuelson  
Syndicated columnist, Newsweek magazine

Professor Raymond Vernon  
Harvard University

Professor Robert W. Campbell  
Indiana University

Mr. John P. Hardt  
Associate Director, Congressional Research Service

Dr. John L. McLucas  
Executive Vice President, Communications Satellite Corporation

Professor Klaus Knorr  
Princeton University

Professor Stephen D. Krasner  
Stanford University

2. Representatives of Other US Government Agencies:

Department of State

Robert J. Morris  
Deputy to the Under Secretary for Economic Affairs

Elinor Constable  
Assistant Secretary for Economic and Business Affairs (Acting)

Harry Kopp  
Deputy Assistant Secretary and Coordinator  
for Latin American Economic Policy

Thomas Niles  
Deputy Assistant Secretary for Europe

Department of Defense

Darnell Whitt  
Intelligence Advisor to the Undersecretary for Policy

James P. Wade  
Undersecretary for Research and Engineering

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Department of the Treasury

Edgar Gordon  
William Escoube  
Office of International Debt

Frank Vukmanic  
Director, Office of International Investment

Ciro DeFalco  
Director, Office of Developing Nations

David Klock  
Robert Harlow  
Office of International Monetary Affairs

Department of Commerce

Frederick T. Knickerbocker  
Executive Director, Office of the Under Secretary  
for Economic Affairs

Charles Ludolph  
Director, Office of European Community Affairs

David K. Diebold  
Deputy Assistant Secretary for Trade Development

James P. Moore, Jr.  
Deputy Assistant Secretary for Trade Information and Analysis

Department of Labor

Charles Bowman  
Chief, Economic Growth Division, Bureau of Labor Statistics

Executive Office of the President

Randall M. Fort  
Deputy Executive Director, PFIAB

National Security Council

Roger W. Robinson, Jr.  
Senior Director, International Economic Affairs

David Wigg  
Senior Staff Director, International Economic Affairs

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Office of the US Trade Representative

Harvey E. Bale, Jr.  
Assistant U.S. Trade Representative

David Walters

Office of Management and Budget

Arnold E. Donohue  
Office of the Deputy Associate Director for National Security

National Science Foundation

Rolf Piekarz  
Alan Rapaport

U.S. Congress

Thomas K. Latimer  
Staff Director, House Select Committee on Intelligence

3. Agency Personnel

	DCI	William J. Casey
	DDCI	John N. McMahon
	ADDI	Richard J. Kerr
25X1	VC/NIC	
	NIO/E	David B. Low
	NIO/S&T	Julian C. Nall
25X1	NIO/AF	Fred Wettering
	NIO/EA	Carl Ford, Jr.
25X1	ANIO/EA	
	NIO/EUR	Col. George Kolt, USAF
25X1	DD/NIC/AG	
	C/Compt/IG	
	D/OGI	
	DD/OGI	
	OGI/ResDir	
	OGI/CTID	
	OGI/CTID	
	OGI/CTID	
	OGI/ECD	
	OGI/ECD	
	OGI/SRD	
	OGI/GD	
	OGI/IIC	
	OGI/ISID	
	OGI/TNAD	

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Attachment 2

C O N F E R E N C E   P R O G R A M

Economic and Security Implications of Structural Change

The Washington Hilton, Washington, D.C.  
3 - 4 June 1985

DAY I. TECHNOLOGY AND STRUCTURAL CHANGE

Moderator:  Office of Global Issues

- 8:30 - 9:00    Coffee and pastries
- 9:00 - 9:10    Welcoming remarks  
William J. Casey  
Director of Central Intelligence
- 9:10 - 9:30    Keynote for Day I  
"Defining the Problem: The Determinants of  
Structural Change and its Inevitability"  
Leo Cherne  
President's Foreign Intelligence Advisory Board
- 9:30 - 9:50    Structural Change and the Future of the International  
Economic System  
Overview: Peter G. Peterson  
Chairman, Peterson, Jacobs and Company
- 9:50 - 10:10    Structural Change and International Competitiveness  
Overview: C. Fred Bergsten  
Director, Institute for International Economics
- 10:10 - 10:30    Break
- 10:30 - 11:15    Panel discussion:  
Charles P. Kindleberger, MIT emeritus  
Mordechai Kreinin, Michigan State University  
 Office of Global Issues
- 11:15 - 12:00    Open discussion (all conference participants)
- 12:00 - 1:00    Lunch (Speaker: James Fallows, Washington editor  
of The Atlantic; author of "The Changing American  
Economic Landscape")

- 1:30 - 1:50    Structural Change and Adjustment to Competition in the Industrialized Countries: The Coming Trade Wars?  
Overview: Roy E. Moor  
Chief Economist, First Chicago Bank
- 1:50 - 2:35    Panel discussion:  
Robert E. Baldwin, University of Wisconsin  
Paul R. Krugman, MIT  
Howard Rosen, Institute for International Economics
- 2:35 - 3:05    Open discussion
- 3:05 - 3:25    Break
- 3:25 - 3:45    Implications of Structural Change for Third World Economies: Winners and Losers  
Overview: Richard Feinberg  
Overseas Development Council
- 3:45 - 4:30    Panel discussion:  
Henry Owen, Consultants International Group  
Kent Calder, Princeton University  
Peter Morici, National Planning Association
- 4:30 - 5:00    Open discussion
- 5:00 - 6:30    Cocktails

DAY II. GEOPOLITICAL IMPLICATIONS OF STRUCTURAL CHANGE

Moderator:  Office of Global Issues

- 8:30 - 9:00    Coffee and pastries
- 9:00 - 9:20    Keynote for Day II  
"Assessing Structural Change from the Standpoint of Intelligence Analysis"  
James R. Schlesinger  
Georgetown Center for Strategic and International Studies
- 9:20 - 9:40    Implications of Structural Change for the Western Alliance  
Overview: Robert Gilpin  
Princeton University
- 9:40 - 10:25    Panel discussion:  
Robert Keohane, Brandeis University  
Michael Aho, Council on Foreign Relations  
 Office of European Analysis

10:25 - 10:45 Break

10:45 - 11:30 Open discussion

11:45 - 12:45 Lunch (Speaker: Robert J. Samuelson, syndicated columnist, Newsweek magazine)

1:00 - 1:20 Structural Change and East-West Relations  
Overview: Raymond Vernon  
Harvard University

1:20 - 2:00 Panel discussion:  
Robert Campbell, Indiana University  
John Hardt, Congressional Research Service  
[redacted] Office of Soviet Analysis

2:00 - 2:30 Open discussion

2:30 - 2:50 Break

2:50 - 3:10 Structural Change and National Security:  
Implications for Strategic Vulnerability and  
Dependence  
Overview: John L. McLucas  
Executive Vice President, COMSAT Corporation

3:10 - 3:55 Panel discussion:  
Klaus Knorr, Princeton University  
Stephen Krasner, Stanford University  
[redacted] Office of Global Issues

3:55 - 4:20 Open discussion

4:20 - 4:30 Concluding remarks  
John N. McMahon  
Deputy Director of Central Intelligence